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ABSTRACT

Guidance on how to make college affordable, especially for middle-income families, is provided. Although college tuition and fees have more than doubled over the past 10 years and will continue to increase, traditional student aid programs have not kept pace with inflation and are earmarked chiefly for students from low-income families. The student debt burden has reached crisis levels. These debts have serious consequences on the decision to enroll, educational performance, and career choice. The use of a planned approach for putting money or assets into a college fund is emphasized, and various savings strategies are explained in detail. This edition was prepared in response to the Tax Reform Act of 1986, and strategies described in the first edition, published in 1984, are updated. Income-shifting strategies (custodianship, age 21 trust, Crummey Trust, and current income trust) are discussed in terms of how they work, constraints, advantages, and disadvantages. Tax-advantaged investments (government bonds, annuities, Individual Retirement Accounts, life insurance, appreciating assets, and home equity loans) are explained in the same manner. (SM)

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Planning Now for College Costs: A Guide for Families

Prepared by
Coopers & Lybrand

Published by the
American Association of
State Colleges and Universities

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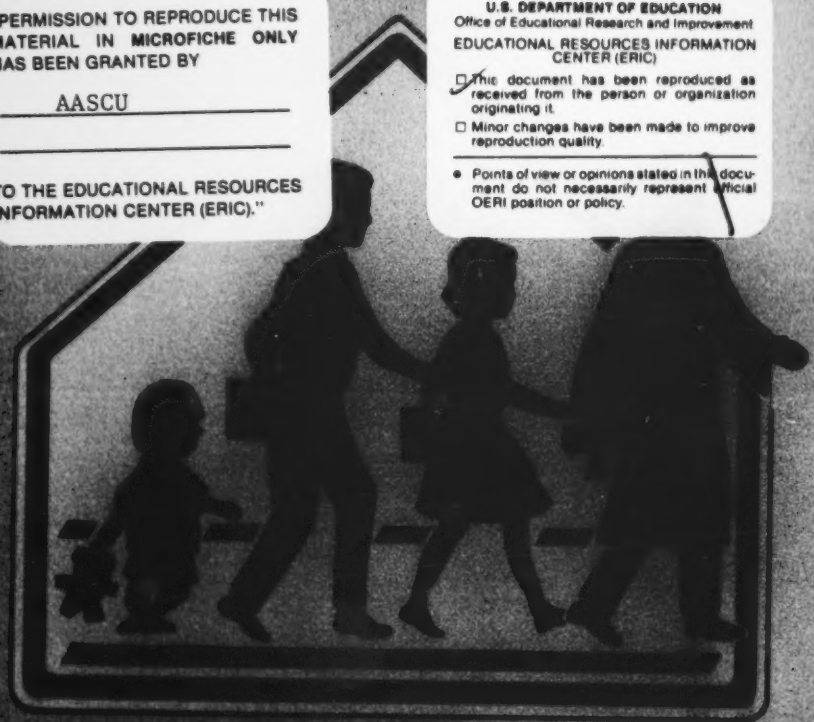

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American Association of State Colleges and Universities

AASCU is an organization of more than 370 state colleges and universities located throughout the United States, Guam, and the Virgin Islands. The member institutions educate one out of five of all U.S. college students and about one of three students attending four-year institutions. AASCU institutions have a strong commitment to provide educational access to members of their communities and regions, a commitment reflected in their low-cost, high-quality undergraduate programs, responsive continuing education programs, and extensive public-service programs.

Coopers & Lybrand

Coopers & Lybrand is the international "Big-8" accounting and consulting firm specializing in financial management of colleges and universities. C&L provides professional counsel to higher education institutions in such areas as accounting and finance, tax planning, management systems, telecommunications, operations improvement and benefits and compensation.

October 1987

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Early Planning
P.O. Box 2155
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Saving For College

This is a guide for families who fear they might not be able to afford to send their children to college. Their fear is justified. Colleges and universities, unable to hold back the tide of rising costs, have been forced to raise tuition and fees. These have more than doubled in the last ten years and will certainly continue to increase. Family incomes and savings, already devastated by the shifting economy, will surely be further eroded. Traditional student aid programs have not kept pace with inflation and are earmarked chiefly for students from low-income families. Students from middle-income families must turn to ever-expanding loan programs. However, the student debt burden has now reached crisis levels. Debts of $10,000 or more are common for today's college graduates. These debts have serious consequences on the decision to enroll, educational performance, and career choice. Many of us in higher education have felt an intensifying concern about how to make college affordable, especially for middle-income families. We think this guide will help.

Although this guide is directed mainly at middle-income families, it is useful for all. It proposes an early start on saving toward college costs: it emphasizes using a planned approach for putting money or assets into a college fund—there's a range of choices—that minimizes income tax payments and thereby maximizes growth. The guide can be especially helpful in identifying savings strategies; however, it should not be used as a substitute for professional legal, tax or investment advice. Additionally an attorney should be consulted before setting up any of the trusts suggested in the guide.

To help families prepare for future college expenses, the American Association of State Colleges and Universities asked Coopers & Lybrand to prepare the guide. The first edition was published in 1984. This edition was prepared in response to

the Tax Reform Act of 1986 and it brings many of the earlier strategies up-to-date. It also has a new section on tax-advantaged investments—giving parents a whole new range of college saving options. This guide was prepared under the direction of Michael Golub, with the assistance of Nicole Mauro, both of the Boston office of Coopers & Lybrand. Michael Golub, Carol Frances and Desiree Caldwell all contributed to the first edition of this guide.

Allan Ostar, President
American Association of State Colleges and Universities

Introduction

For many parents the largest investment they will ever make—after a home—is in their children's education. For nearly a decade, parents have watched as the cost of tuition skyrocketed. Many families were further jolted by the Tax Reform Act of 1986, which changed the rules for planning for college costs. Gone are the tax benefits of such popular savings vehicles as Clifford Trusts and Spousal Remainder Trusts. The new law also reduces the differences between rates at which most parents and their children will be taxed, eliminates a dependent's ability to claim a personal exemption and changes the rules on taxation of children under age 14. But it's not all bad news. In fact, there are a surprising number of strategies that enable parents to save money tax-effectively for their children's college educations. These strategies fall into two general categories: income shifting and tax-advantaged investments. Income shifting allows parents to transfer assets to children through a custodianship or trust; income earned on these assets is generally taxed at a lower tax rate, allowing savings to accumulate faster. Tax-advantaged investments allow parents to defer taxes on investment income or provide income on a tax-free basis. Tax-advantaged investments include government bonds, annuities, IRAs, life insurance, and appreciating assets. With college costs expected to rise even further, parents should not give up on efforts to save for their children's educations. This guide helps families analyze different savings strategies.

Income-Shifting Strategies

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The planning techniques described in this section offer tax advantages for building your child's college fund. They share certain common characteristics:

- You must put money or other assets in your child's name or in a trust. The sooner you do so, the greater the ultimate tax saving. However, the ability to shift income to a child under age 14 is very limited.
- Income shifting may utilize the lower tax bracket and standard deduction of a child or a trust, allowing greater tax savings.
- You can give each child up to $10,000 a year without making a taxable gift. If you're married, the annual gift-tax exclusion is $20,000.
- A custodianship or trust must be irrevocable in order to be effective for tax purposes. Once established, it cannot be changed. If you set up a custodianship and your child decides not to go to college, he or she would still have control of the principal on reaching majority. If you set up a trust, an independent trustee may be able to designate another beneficiary.
- Custodianships must terminate when your child reaches the age of majority—18 in some states, 21 in others. Certain trusts, however, can continue after your child reaches majority.
- Your child's social security number—and not yours—should be on any custodial account you set up. Trusts must obtain their own tax identification number.
- There are costs for establishing and maintaining a trust. They vary significantly, depending on the circumstances.
- There's a potential problem with several of these strategies that you should check carefully. Some states regard paying for a child's college education as part of the parents' responsibility to support a child. In such case, the income distributed from a trust or custodian account to pay college costs will be taxed at your rate instead of your child's. You may be able to avoid this problem by ensuring that money is transferred to the child without restrictions and is used by the child to pay college costs.

Custodianship

A custodianship is one of the simplest ways of transferring assets to your child. Most states restrict a minor's ability to own, administer and transfer property. Also, most parents are not comfortable transferring investment property outright to minor children. Under the Uniform Gifts to Minors Act, parents can transfer property to custodial accounts for their children without giving their children the power to sell or otherwise dispose of the property.

How It Works

There is no need to draw up a legal document and there is no cost attached to administering a custodianship. You can open an account in your child's name at a bank, mutual fund or brokerage firm, with you or your spouse as custodian. Stocks, bonds, certificates of deposit, and many other types of investment property can be held in custodial accounts. Investments that appreciate are particularly attractive since the appreciation is not taxed until the property is sold or redeemed.

You or your spouse can serve as custodian, manage the investment and distribute income and principal to pay the college bills, all subject to the fiduciary laws of your state. States have specific requirements for the exact language needed to establish a custodianship that the bank or investment company will employ in setting up the account.

Advantages

A custodianship costs less to administer than a trust—it should, in fact, cost nothing at all. If your child is over 13, the income will be taxed at the child's rate. After 1987, a $3,000 standard deduction is available and the next $17,850 will be taxed at a 15% rate. (In 1987, the standard deduction is $2,540 with the next $1,800 taxed at an 11% rate and the next $15,000 taxed at 15%.) If your child is under 14, assuming no other sources of income, generally the first $500 earned each year will be tax-free; the second $500 will be taxed at a 15% rate, 11% in 1987. Income in excess of $1,000 will be taxed at your marginal rate, if higher.

Disadvantages
The custodianship must terminate when your child reaches majority; all interest and remaining principal must be distributed to the child.

If you serve as custodian and die before the custodianship terminates, the assets you have provided will be included in your estate for tax purposes. This might not be a problem for estates under $600,000, which are generally not subject to federal estate taxes.

Custodianship

If parents in a 28% marginal tax bracket invest $1,000 in their names for their child's education at the beginning of each year, beginning in the year their child is born, the funds will accumulate to approximately $32,000 when their child reaches 18, assuming no state taxes are paid and an 8% return is realized.

If the funds are invested instead in a custodial account for the child's benefit, approximately $38,500 will accumulate over the same period, assuming the child had no other sources of income. This provides an additional $6,500 for college.

Age 21 Trust

An Age 21 Trust is a sensible mechanism to use if your child has income outside trust income, particularly if your child is under age 14.

How It Works

You'll need a lawyer to draw up the legal document establishing the trust and naming your child as beneficiary. Generally, you or your spouse should not be the trustee, but you may designate a friend of the family, perhaps, or a bank. The trustee controls investment decisions and is responsible for fulfilling the terms of the trust agreement. You make a gift or periodic gifts to the trust.

Accumulated trust income is taxable at trust rates, which may be lower than your tax rate if you're in a high bracket, and may also be lower than your child's, particularly if he or she is under 14. Current income distributed to your child or a custodial account is not taxed at the trust level, but at your child's rate.

Constraints

You must be extremely careful about the type of control you exercise over the trust property. If you retain certain types of control, the income will be taxed to you. The professional who sets up the trust will advise you.

If you transfer appreciated assets to the trust and the trustee sells them within two years after the transfer, the gains recognized are taxable at your higher rate.

Advantages

The property can be kept in the trust until your child reaches age 21 even if the age of majority is lower in your state. The trustee can distribute interest and principal when your child enters college and until your child turns 21. The trust can then be terminated and your child will receive all of the remaining assets. Alternatively, the trust can be set up so that the principal remains in trust for your child after age 21, if he or she chooses not to withdraw it at that time.

Transfers to Age 21 Trusts qualify for the annual gift-tax exclusion.

If you die before termination of the trust, the assets are not includable in your estate for tax purposes unless the principal reverts to you under the terms of the trust.

Disadvantages
Although it is common for a friend of the family to administer the trust free of charge, there will nevertheless be costs: a fee to the attorney who draws it up and fees to the tax accountant or attorney who calculates the trust's annual income taxes. If a bank is administering the trust, the bank's fee for services probably will be based on the amount of money in the trust.

Crummey Trust

A Crummey Trust is named for D. Clifford Crummey—a member of the first family given court approval to set up such a trust.

How It Works

You make a gift to a Crummey Trust, of which your child is the beneficiary, and receive an annual gift-tax exclusion on the amount your child is eligible to withdraw. If your child is the sole beneficiary, you may make annual gifts of up to $10,000 ($20,000 if you're married) with no gift-tax consequences. If your child is not the only beneficiary, the rules are more complex.

Although your child has the power to withdraw gifts to the trust, he or she is not required to make these withdrawals. If withdrawals are not made, the trust can continue to accumulate income even after the beneficiary reaches age 21.

As with all trusts discussed in this guide, tax on withdrawals or distributions of current income is paid at your child's marginal rate if the child is over 13, or if the child is under 14 and reports $1,000 or less in income. Income not distributed is taxed at the trust rate.

When the trust is terminated, the remaining principal passes to your child or to any other designated beneficiary.

Constraints

Crummey Trusts are subject to the same general trust constraints as Age 21 Trusts.

Advantages

The principal or income does not have to be distributed when your child reaches majority, but can remain in trust.

If you die before termination of the trust, its assets are not includable in your estate for tax purposes, unless you hold a remainder interest.

Disadvantages
Trusts cost money to administer.

As gifts are made to the trust, your child must have the right to make withdrawals for a period of time after the gift is made. In general, this period is 30 to 90 days from the date of the gift.

Trust
If a child has significant amounts of income, a custodial account may not provide appreciable tax savings because additional income earned by the child will be taxed at her parents' rate while she is under 14 and may very well be taxed at similar rates after she reaches 14. However, because a trust is considered a separate taxpayer, it may provide benefits in this circumstance. Using the same assumptions as in the example illustrating the benefits of a custodianship, if $1,000 each year was transferred to a trust that accumulated all its income, approximately $36,000 would be available in the year the child turns 18, providing $4,000 more than if the funds had been held by the parents or a custodial account.

Current Income Trust

This type of trust requires that the beneficiary have the right to trust income when it's earned. If your child is still a minor, the income could be distributed to a custodian. When majority has been reached, the income would go directly to your child for college. If a custodial account has been building up, it also must be distributed.

How It Works

You give assets to a Current Income Trust established for your child.

You're eligible for an annual gift-tax exclusion on the value of the income portion of your gift. This value varies according to the length of time during which your child is designated to receive income from the trust, and is determined from IRS tables. Your child pays tax on the income at his or her tax rate.

Constraints

Income must be available to the beneficiary soon after it's earned. Current Income Trusts are also subject to the general trust restrictions discussed earlier.

Advantages

A child over 13 whose income is small usually receives a better after-tax return with a trust that distributes current income than with one that allows income to accumulate. Remember that income distributed to a child over 13 is taxed at his or her lower income tax rates, while accumulated income held by a trust may be taxed at a somewhat higher rate. Remember also that after 1987 the first $3,000 ($2,540 in 1987) of your child's income is tax exempt, whereas only the first $100 of income accumulated in a trust is exempt.

The principal does not have to be distributed when your child reaches majority, but can remain in trust.

As long as no portion of the trust principal will revert to you, the principal is not includable in your estate for tax purposes should you die before the trust terminates.

Tax-Advantaged Investments

Most of the investment strategies described in this section allow you to defer taxes on income earned until it is withdrawn or distributed. Some of the investments provide tax-free income. The accumulated earnings can be used to fund your child's education. The main characteristics of these investments are:

- With some investments, an interest rate or a minimum interest rate is set at the time of purchase. With others, the rate of return varies according to market conditions. There is a risk with the latter that the future rate of return will be lower than the rate at the time of purchase, which would result in a smaller college fund. Risks also exist with fixed-rate investments because the investment will provide a below-market rate of return if interest rates rise.
- Many of these products can be used in conjunction with the techniques described in the first section of this book. These investments can be held by a custodial account or trust, so that the interest is ultimately taxed at your child's or the trust's rate.
- There is a 10% additional tax penalty for any early withdrawal of funds from an annuity or an IRA. However, the penalty may be outweighed by the tax savings these investments provide.

Government Bonds

How They Work

A bond is a promise or obligation to pay the face amount plus interest at set dates. The issuer is usually a corporation, a government or a government agency. Interest is most commonly paid out through coupons attached to the bond. Bonds can be purchased directly or indirectly, by investing in a mutual fund or a unit trust holding a bond portfolio. You can purchase bonds timed to mature when your child reaches college age. The bonds can be held in a parent's name, in a custodial account or in trust for the child.

There are many types of government bonds available for investment. Municipal bonds are issued by state and local governments. The interest is exempt from federal income tax, and from state taxes in most instances if issued by your state or a town in your state. Although yields on municipal bonds are lower than other bond yields, the after-tax earnings may be higher because the interest is tax-exempt.

Series EE U.S. government bonds are sold at a discount from their face value and mature in 10 years. They provide a variable interest rate and guarantee a minimum rate of return. The interest, which is exempt from state and local taxes, is not paid to you until the bond reaches maturity. Federal tax is not due on the bond until it is redeemed, unless you elect to be taxed annually.

Stripped municipal bonds are securities created by stripping the interest coupons from the principal on outstanding municipal bonds and selling the principal portion as a separate security. Because the bond holder is not entitled to regular interest payments, these bonds sell at discounts from face value. At maturity, the bond is redeemed at face value. Since these are municipal bonds, earnings are tax-exempt.

Constraints
Interest on indebtedness that would otherwise be tax-deductible cannot be deducted if borrowed funds are used to purchase or hold an investment in tax-exempt securities (i.e., securities that generate income not subject to federal tax, such as municipal bonds). The interest expense is disallowed if the borrowed funds are invested directly in tax-exempt securities or if a reasonable inference can be drawn that under the circumstances the borrowed funds are being used to invest in securities. Generally, borrowing not directly connected with personal expenditures (e.g., purchases of goods or services for personal consumption or a home mortgage) that is not incurred in connection with a trade or business will be treated as an investment in tax-exempt securities.

Advantages
Bonds are a long-term investment that may appreciate. Preferential tax treatment is provided for the interest earned on many types of government obligations. Bonds can be held by a custodian account or deposited into a trust.

Stripped bonds have a potential advantage over coupon bonds: they ensure a consistent rate of return over the life of the bond. With coupon bonds, there is no guarantee that the interest paid can be reinvested at the same rate of return.

Disadvantages
If you invest in bonds with "call" provisions, the issuer may redeem the bond before it has matured. By calling the bonds, the issuer is no longer required to continue paying interest. As would be expected, bonds that are called often paid a higher interest rate than more recently issued obligations. The proceeds of a called bond can be reinvested, but usually at rates below those earned by the bond before it was redeemed.

Individuals who may be subject to the alternative minimum tax should be aware that interest paid on certain municipal bonds issued after August 7, 1986, is taxable for alternative minimum tax purposes if the bond proceeds will be used to fund private activities. Interest from private activity bonds will still be tax-free for the purposes of calculating your regular tax liability. Note: college and university bonds do not generally fall under this rule.

Tax-Advantaged Investments

Municipal Bonds

For an individual in a 28% marginal tax bracket, the tax-free return on a 5.76% municipal bond is equivalent to the after-tax rate on an 8% corporate bond. The corporate bond would have to provide an even higher rate to be equivalent if interest is exempt from state taxes. The comparable rate of return for taxable and tax-exempt bonds is determined as follows:

Taxable to Tax-Exempt

8%	Taxable Rate
x 28%	Tax Rate
2.24%	Tax Due
8%	Taxable Return
-2.24%	Tax Due
5.76%	Equivalent Tax-Exempt Rate

Tax-Exempt To Taxable

Tax-Exempt Rate ÷ (1 − Tax Rate) = Equivalent Taxable
5.76% ÷ (1 − 28%) = 8% Rate

Stripped Municipal Bonds

If the cost of acquiring a $10,000 face amount stripped municipal bond maturing in 18 years is $3,649, the bond provides a 5.76% rate of return.

Annuities

How They Work

An annuity is purchased in a lump sum or on installment from an insurance company. The annuity begins making payments to you or a designated beneficiary at regular intervals for at least one year.

The amount of the annuity payment that represents interest on the original investment is taxable when received. The amount that represents your initial investment is not taxed. This amount is prorated over the total number of payments you will receive.

There are various types of annuities. A fixed annuity pays a fixed amount at regular intervals. The amount of payment is determined according to a number of factors, including the age and sex of the annuitant. If you purchase a variable annuity, the insurer invests the premiums, and payments vary according to investment performance. An immediate annuity is purchased in a lump sum and begins making payments immediately.

Advantages

The main advantage of an annuity is that income is not taxed until withdrawn. Parents can purchase an annuity and allow interest to accumulate tax-free until their child reaches college age.

Disadvantages

Generally, if you withdraw funds prior to attaining age 59 1/2, death or disability, there is an additional 10% tax imposed on the amount included in your income. This rule does not apply if the withdrawal is from an immediate annuity, is part of a series of payments made over the life of the annuitant or is from an annuity purchased before August 14, 1982. Even though a penalty is imposed on withdrawals, the tax-deferred build-up of savings may outweigh the cost of the penalty.

Individual Retirement Accounts (IRAs)

How They Work

An employee or self-employed individual can make a yearly $2,000 contribution to an IRA (or up to the amount of earnings if less than $2,000). An individual and a non-working spouse can contribute $2,250. In the past such contributions were fully deductible by all taxpayers. Now, however, if either parent is covered by any one of most types of employer-sponsored retirement plans, fully deductible contributions can only be made if their combined adjusted gross income is below $40,000 ($25,000 for single individuals). The deductibility feature phases out for taxpayers with adjusted gross incomes over these amounts, with no deduction allowed for married individuals with joint adjusted gross income of $50,000 or more ($35,000 and above for singles).

IRA funds can be invested in a broad range of investments, but IRAs cannot hold collectibles such as art and stamps. An exception is made for certain gold and silver coins.

Distributions from an IRA are included in gross income and taxed as ordinary income when received unless they relate to contributions that were not tax-deductible when made.

Advantages

Taxable income may be reduced by the amount of the contribution. No taxes are paid until distribution.

Disadvantages

Generally, a 10% additional income tax is imposed on a withdrawal from an IRA prior to death, disability or attainment of age 59 1/2. As with annuity plans, the tax savings from the tax-free accumulation of earnings may outweigh penalties on withdrawal.

Many parents will not be able to take full advantage of the IRA deduction because of the limit applied to participants in other qualified retirement plans.

Life Insurance

Many types of life insurance policies provide life insurance as well as an investment with tax benefits.

How It Works

There are a variety of policies that provide an inside cash build-up, such as a single premium policy, a conventional whole-life policy and a flexible premium policy. Single premium life insurance is purchased with one premium. With a conventional whole-life policy, you pay fixed premiums for insurance with fixed cash values. Flexible premium policies, including universal life and adjustable life policies, provide payments of premiums that are not fixed by time or amount. The cash values of the policy depend on the amount of the premiums paid in.

Premiums on all of these policies earn income and increase the cash value of the policy. The insurance company ordinarily sets the rate. You can also purchase a variable policy, in which premiums are invested into a fund, such as a stock fund, bond fund or money market fund. The income earned depends on fund performance.

With all of these policies, the earnings or inside cash build-up accumulate tax-free. However, if you cash in your policy the earnings will be taxed as ordinary income. You can borrow against the cash build-up in the policy without paying taxes to pay for your child's college tuition. The interest on your loan will be credited against the interest earned by the policy. This "loan" is like a withdrawal because you don't have to pay it back and there may be no out-of-pocket interest charges. When the insured dies, the amount the beneficiary receives is reduced by the unpaid loans.

Constraints

If you cash in your policy, the accumulated earnings will be taxable at your rate or your child's rate, depending on who owns the policy. In addition, insurance companies may charge a surrender fee if you cash in your policy during the first few years. This fee is ordinarily phased out over a specified number of years.

Advantages
You do not have to give up control of assets or money to your child, and you avoid the costs of setting up and administering a trust.

Even if you make withdrawals of the income earned to pay for tuition, the policy continues to earn interest on the premiums paid.

Investment earnings can be used tax-free if funds are borrowed from the policy to pay college costs.

Disadvantages
If you need life insurance, term insurance may be cheaper.

The income earned by the policy may decrease in the future when the insurance company resets the rate or if the policy is a variable rate policy.

If you borrow an amount that exceeds policy earnings, the insurance company will charge you interest that is not credited against the interest earned by the policy. You will be paying interest to use your own money.

If you need to surrender the policy, you will be taxed on the entire amount of accumulated earnings and you may be charged surrender fees.

Various members of Congress have discussed reducing or eliminating the favorable tax benefits currently provided for the investment portion of life insurance policies. At this time, there is no certainty that any changes will occur or, if so, when.

Single Premium Life Insurance

If a single premium life insurance policy was acquired for $10,000, after 18 years the policy would have a cash surrender value of about $40,000, assuming an 8% earnings rate. The $30,000 in earnings could be borrowed without any tax consequences and would be paid back by a reduction in the insurance proceeds upon the insured's death.

Appreciating Assets

How They Work

Assets that are expected to appreciate in value can still provide tax-deferred growth. No tax is paid while the assets are appreciating; gain is only recognized on sale. Even though tax reform has eliminated lower tax rates on long-term capital gains, investments in real estate, stocks, gold, coins and other assets that may appreciate remain attractive because of this tax deferral feature.

The tax due on the appreciated value when the asset is sold may be lower if the asset is owned by a trust or by a child who is 14 or older at the time of sale. Gift and income tax considerations must be examined to determine whether it is preferable to have a child or trust hold the property initially or to transfer it right before the time of sale.

Disadvantages

Investing in assets for appreciation purposes is riskier than acquiring assets that provide a fixed or determinable rate of return, since the eventual return is unknown.

Appreciating Assets

The following illustrates the advantage of having a child over 13, rather than a parent, sell an appreciated asset. The example assumes the asset cost is $2,000 and it is sold for $12,000, providing a $10,000 gain. The parent is in a 28% marginal tax bracket. The child has no other income and 1988 rules are applied.

Sale by Parent		Sale by Child	
$10,000	Gain	$10,000	Gain
x 28%	Tax Rate	-3,000	Standard deduction
$ 2,800	Tax	7,000	Taxable income
		x 15%	Tax Rate
		$ 1,050	Tax
$12,000	Sale Price	$12,000	Sale Price
- 2,800	Tax	- 1,050	Tax
$ 9,200	Net Proceeds	$10,950	Net Proceeds

Home Equity Loans

For home owners who have not accumulated sufficient funds to pay for their children's college education by the time the college years are at hand, interest on debt secured by a principal or second residence—a first or second mortgage or a home equity loan—is still tax deductible, as long as the amount of debt does not exceed the original cost of the residence plus improvements. Additional amounts may be borrowed (up to the fair market value of the residence), and any interest paid will be tax deductible, if the money is used to pay tuition and related expenses.